Risk and returns – the positive impact of disruption for shipping

Houthi attacks on shipping in the Red Sea have highlighted the impact of geopolitical events on shipping and how owners and operators must respond to a fast-changing situation.

Barry Parker, New York Correspondent

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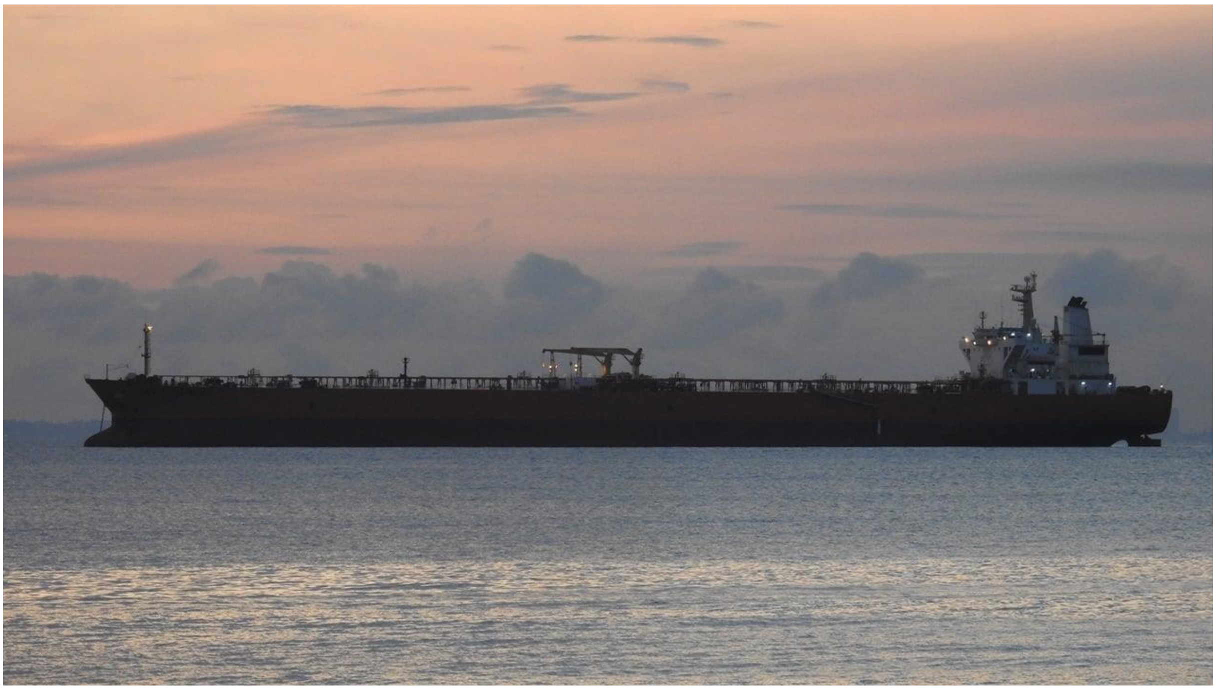

Credit: Marcus Hand

The intersection of supply chains with macro geopolitical developments was the subject of a panel at the New York Maritime Forum, organised by Capital Link last week.

Responding to a question from the moderator, Filana Silberberg, Partner at law firm Watson, Farley & Williams, on whether disruptions are good or bad, panelist Torbjørn Wist, the CFO of ro-ro specialist Wallenius Wilhelmsen ASA (WW), said: "From our perspective, disruptors have definitely been a positive…because the supply/demand balance shifting in favour of the operators." He went on to distinguish between beneficial impacts in the short-term which enabled increases in vessel hires, but said that over time, disruptors brought challenges.

"The shipping industry is, in all aspects, incredibly resilient," was the view of Mark O'Neil, President/ CEO of Columbia Group, in response to a question of the industry response to developments in the Red Sea, and the necessity for re-routing ships.

"The challenge for me was establishing the correct risk assessment criteria…and asking when does that risk become unreasonable?" He elaborated on risk assessment, saying that "it changes every minute" against a backdrop where circumstances change over time.

In previous conflict situations, a naval escort would likely provide adequate protection with a transit considered "an acceptable risk", he explained. But as the Red Sea conflict has evolved, "the technology changed…as soon as we saw the advent of underwater drones…that became an unacceptable risk for us."

As the discussion on risk continued, WW's Wist said: "We were the first ro-ro carrier to stop passing through the Red Sea. We never compromise on safety…we had about 10 passages each way every month. Cost-wise…it was more the opportunity loss of lost trading days that adds to the cost," though he stressed that the extra costs "were not a big hit" when compared to overall results.

Looking ahead, he said, "We fear that this is going to take a long time, so we will not entertain the thought of going in." Alluding to O'Neil's observations, Wist said: "Even with escorts, the Houthi's seem to try anyways, so we just don't take any risks with our crew or our vessels."

Panelist Dr. Tassos Aslides, CFO/ Treasurer of two Nasdaq listed companies, Euroseas and Eurodry, stressed the differences, when evaluating risk between a tramp operator and liner companies. He said liner operators, "would need to adjust their entire schedule…the stakes are much bigger. It takes a longer time for a liner company to react. We have not been going through the Suez Canal since this situation has come up."

In response to Silberberg's question on whether passages around Cape of Good Hope are going to be a solution with some permanence, Columbia's O'Neil said, "Yes, I think that it is a viable long-term solution," point out that: "It was only at the first sniff that shipping suffered, but now- it's adjusted to the alternative routes."

Pointing to the increased vessel-day demand, he said: "It's probably, perversely, beneficial to shipping…more vessels are needed…distances are longer…and any slack in the market is quickly taken up."

WW's Wist concurred, saying: The fact that we have to go around [the Cape of Good Hope] exacerbates an already tight supply and demand balance." He mentioned increased long voyages from China in the vehicles trades, and said, "We are operating at more than 100% capacity."